

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05
EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03
H-01 PA-01 PRS-01 CIAE-00 COME-00 FRB-03 INR-07
NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 EURE-00
FEAE-00 /087 W
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P R 141647Z JUL 77
FM AMEMBASSY MADRID
TO SECSTATE WASHDC PRIORITY 1032
INFO AMEMBASSY LISBON
AMEMBASSY PARIS

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E.O. 11652: N/A
TAGS: EGEN, EFIN, PINT, SP
SUBJECT: INITIAL REACTIONS TO ECONOMIC POLICY ANNOUNCEMENT OF GOS

REF: MADRID 5284

1. SUMMARY: INITIAL REACTION TO GOVERNMENT'S STATEMENT
OF ECONOMIC POLICY IS GENERALLY POSITIVE, BUT WITH
DISTINCT "WAIT AND SEE" ATTITUDE ON WHAT THE SPECIFICS
OF THE PROGRAM WILL BE. OF MAJOR GROUPS, LABOR ORGANI-
ZATIONS WERE THE MOST CRITICAL, POINTING TO ABSENCE OF
SPECIFIC MEASURES TO DEAL WITH UNEMPLOYMENT, WHICH THEY
CONSIDER MOST CRITICAL PROBLEM, AND FAILURE TO DEAL DIRECTLY
WITH PRICES. THEY ALSO EXPRESSED CONCERN OVER
POSSIBILITY OF OVERLY-RESTRICTIVE STABILIZATION MEASURES,
INCLUDING BRIDLING OF WAGES. MAJOR OPPOSITION POLITICAL
PARTIES WERE RESTRAINED, LIMITING THEIR CRITICISM TO
FAILURE OF GOVERNMENT'S STATEMENT TO DEAL WITH
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AGRICULTURE AND ENERGY AND ITS ALLEGED FOCUS ON
WAGES AS CAUSE OF INFLATION. BUSINESS SECTOR
GENERALLY FAVORABLE TO STATEMENT, PLEASED THAT GOVERN-
MENT PROMISES EARLY ACTION. REGARDING DEVALUATION,
THE ONLY SPECIFIC MEASURE THUS FAR IMPLEMENTED, ALL
GROUPS RECOGNIZED IT AS INEVITABLE AND GENERALLY
APPROVED. SOME CONCERN SURFACED ABOUT TIMING OF

DEVALUATION AND LACK OF ACCOMPANYING MEASURES TO
DAMP ITS INFLATIONARY IMPACT. END SUMMARY.

2. OPPOSITION POLITICAL PARTIES.

INITIAL REACTION AMONG LEFTIST OPPOSITION POLITICAL
PARTIES TO GOVERNMENT'S ECONOMIC STATEMENT IS
CAUTIOUSLY POSITIVE. THE PSOE HAS AVOIDED MAKING
DIRECT PUBLIC COMMENT ON THE PROGRAM. IT TURNED
DOWN INVITATION FROM MADRID DAILY EL PAIS TO OFFER
A PRELIMINARY ASSESSMENT OF THE GOVERNMENT'S PROPOSALS.
FOLLOWING HIS MEETING WITH SUAREZ ON MONDAY EVENING,
FELIPE GONZALEZ CONFINED HIMSELF TO NOTING THAT THE
GOVERNMENT PROPOSALS SEEMED GENERALLY "POSITIVE"
AND ECHOED MANY ELECTION POSITIONS OF THE PSOE.
MIGUEL MUNIZ, A MEMBER OF PSOE'S ECONOMIC CADRE,
DID COMMENT THAT THE DEVALUATION WAS AN "INEVITABLE"
STEP. WITH REGARD TO REST OF PROGRAM, HOWEVER, HE
LIMITED HIS COMMENTS TO EFFECT THAT ANY REAL EVALUATION
WOULD HAVE TO AWAIT THE ACTUAL PROPOSALS TO THE GOVERN-
MENT. HE DID NOTE THAT GOVERNMENT'S STATEMENT SEEMED
TO BE BASED ON THE BELIEF THAT "SALARIES...WERE THE
ONLY CAUSES OF INFLATION, FORGETTING ALL OF THE OTHER
CAUSES" WHICH MUST ALSO BE DEALT WITH.
PCE LEADER SANTIAGO CARRILLO CALLED GOVERNMENT'S
MEASURES "POSITIVE BUT INCOMPLETE." IN OFFICIAL STATE-
MENT, PCE EMPHASIZED ITS AGREEMENT WITH MEASURES TO
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IMPLEMENT INHERITANCE TAXES AND REDUCE TAX FRAUD.
AT SAME TIME, PCE HOLDS ANTI-INFLATIONARY MEASURES
OUTLINED IN THE GOVERNMENT'S STATEMENT TO BE UNSATIS-
FACTORY BECAUSE OF THEIR RELIANCE ON WAGE RESTRAINT,
WITH NO MENTION OF PRICE CONTROLS OR THOROUGH GOING
REFORM -- A SITUATION WHICH THE PCE SAYS GOVERNMENT
CAN LITTLE EXPECT WORKERS TO ACCEPT. PCE ALSO ATTACKED
GOVERNMENT PROGRAM AS FAILING TO DEAL WITH MEANS OF
REDUCING ENERGY IMPORTS AND AS IGNORING PRESSING
AGRICULTURAL PROBLEMS. THE PSP IN ABBREVIATED OFFICIAL
STATEMENT FOUND THE PROGRAM "POSITIVE," BUT ALSO
POINTED TO ITS FAILURE TO DEAL WITH NEEDS IN AGRICULTURE
AND EDUCATION.

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3. LABOR.

AMONG LABOR ORGANIZATIONS (UGT, USO, CNT, AND WORKERS COMMISSIONS) INITIAL REACTION IS RESERVED, WITH MOST SPOKESMAN STRESSING NECESSITY TO WAIT FOR ACTUAL GOVERNMENT PROPOSALS BEFORE EXPRESSING ANY OPINION. MOST SAW THE MEASURES AS "FREEING CAPITAL" (THROUGH THE OFTEN-NOTED ABSENCE OF ANY MENTION OF PRICE CONTROLS AND THE PROPOSED LIBERALIZATION OF INTEREST RATES) WHILE SEEKING TO "BRIDLE" WAGES. SPECIFIC SPOKESMEN EXPRESSED CONCERN OVER GOVERNMENT INTENTIONS TO IMPLEMENT OVERLY RESTRICTIVE STABILIZATION POLICIES. MARCELINO CAMACHO (LEADER OF WORKERS COMMISSIONS) STATED THAT DEVALUATION HAD BEEN UNDERTAKEN WITHOUT PRIOR CONSULTATION WITH ANYONE -- A POOR PRECEDENT, HE SAID, FOR THE UNDERSTANDINGS THAT WOULD HAVE TO BE REACHED IN THE FUTURE. CONCERN WAS ALSO EXPRESSED AMONG LABOR SPOKESMAN THAT GOVERNMENT STATEMENT OFFERED LITTLE CONCRETE TO INCREASE

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EMPLOYMENT AND NO REAL EXTENSION OF SOCIAL WELFARE PROGRAMS. WITH REFERENCE TO THE DEVALUATION, SOME LABOR SPOKESMEN (CAMACHO AND JOSE MIGUEL IBARROLA OF SINDICATO UNITARIO) SAW IT AS A DISGUISED STABILIZATION MEASURE WHICH WOULD AFFECT MOST GRAVELY THOSE WITH LOWER INCOMES.

4. BUSINESS.

REACTION AMONG BUSINESSMEN EMPHASIZES ECONOMIC LIBERALI-

ZATION AND EFFORTS TOWARD FISCAL REFORM AS THE MOST POSITIVE ASPECTS OF THE PLAN. SOME RESERVATIONS SEEM TO EXIST AS TO GOVERNMENT'S ABILITY TO CARRY FORWARD NEGOTIATIONS, WITH BUSINESS AND PARTICULARLY LABOR, THAT WILL BE NECESSARY TO IMPLEMENT AN INCOMES POLICY. BUSINESSMEN EMPHASIZE THAT GOVERNMENT MUST SHOW ITS "EARNESTNESS" IN PRESSING FOR WAGE AND PRICE MODERATION. ELEMENTS OF IMPORTANT TOURIST INDUSTRY EXPRESSED SURPRISE AND CONCERN OVER TIMING OF DEVALUATION WHICH THEY FEAR MAY REDUCE EARNINGS FROM TOURISM THIS YEAR. THEY POINT OUT THAT BOOKINGS ALREADY MADE FOR THIS SUMMER AND MOST LIKELY RESULT OF DEVALUATION WILL BE WINDFALL FOR TOURIST AGENTS WHO HAVE ADVANCE CONTRACTS IN FOREIGN CURRENCIES. SOME CONCERN WAS ALSO EXPRESSED AT FAILURE OF GOVERNMENT TO CONSULT WITH LEADING ECONOMIC ACTORS PRIOR TO THE DEVALUATION.

5. PRESS.

PRESS EMPHASIS HAS BEEN ON DEVALUATION. EACH OF THE THREE MAJOR MADRID MORNING PAPERS (ABC, YA, AND EL PAIS) LABELED THE DEVALUATION A REALISTIC MEASURE, MADE UNAVOIDABLE BY THE RAPID DETERIORATION OF BALANCE OF PAYMENTS IN RECENT WEEKS. EL PAIS AND ABC BOTH POINTED OUT, HOWEVER, THAT THE DEVALUATION NEEDED TO BE ACCOMPANIED BY MEASURES TO CONTROL INFLATION WHICH IT WILL INDUCE, LIMITED OFFICIAL USE

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TO STIMULATE DOMESTIC PRODUCTION, TO MAKE POSSIBLE REDUCTION OF ENERGY IMPORTS, AND TO MITIGATE HARDSHIPS WHICH MAY BE CAUSED BY CERTAIN INCREASES IN IMPORT PRICES. STABLER

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